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**CITY OF PALMDALE,
CALIFORNIA
MANAGEMENT LETTER
JUNE 30, 2009**

Mgt Ltr
5/17/10



Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

December 11, 2009

The Honorable Members of the City Council of
The City of Palmdale, California

We have audited the basic financial statements of the City of Palmdale (the City) for the year ended June 30, 2009 and have issued our report thereon dated December 11, 2009. In planning and performing our audit of the financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the accompanying pages.

MAJOR FUND CALCULATION

CONTROL DEFICIENCY

Through the final review of the City's financial statements it was noted that one major fund was not presented as a Major Fund in the Governmental Funds Financial Statements.

RECOMMENDATION

We recommend that the City strengthen their internal controls over financial reporting to ensure all funds that qualify as major funds are disclosed.

MANAGEMENT RESPONSE

The City has developed new procedures to ensure that all funds that qualify as major funds are disclosed.

STATUS OF PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

<u>Deficiencies</u>	<u>Status</u>
Personnel Policies	Implemented
Cash Receipting	Implemented
Housing Authority – Cutoff Procedures	Implemented.

NEW FINANCIAL REPORTING STANDARDS

GOVERNMENTAL ACCOUNTING STANDARD No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010.

GOVERNMENTAL ACCOUNTING STANDARD No. 53

In June 2008, The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009, with earlier application encouraged.

GOVERNMENTAL ACCOUNTING STANDARD No. 54

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

GOVERNMENTAL ACCOUNTING STANDARD No. 57

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plan. This statement is effective for periods beginning after June 15, 2009.

GOVERNMENTAL ACCOUNTING STANDARD No. 58

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement is effective for periods beginning after June 15, 2009.

STATEMENT ON AUDITING STANDARDS (SAS) No. 115

COMMUNICATING INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN AN AUDIT

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standard 115, replacing SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard defines the terms *deficiency in internal control*, *significant deficiency*, and *material weakness*; provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements; and requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit. It is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

STATEMENT ON AUDITING STANDARDS (SAS) No. 117

COMPLIANCE AUDITS

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standard 117, which supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. This standard addresses the application of GAAS to a compliance audit. It is effective for compliance audits for fiscal periods ending on or after June 15, 2010. Early implementation is permitted.

STATEMENT ON AUDITING STANDARDS (SAS) No. 118

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standards 118, *Other Information in Documents Containing Audited Financial Statements*. This standard addresses the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the financial statements does not cover other information, and the auditor has no responsibility for determining whether such other information is properly stated. This standard establishes the requirement for the auditor to read the other information of which the auditor is aware because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

STATEMENT ON AUDITING STANDARDS (SAS) No. 119

SUPPLEMENTARY INFORMATION IN RELATION TO THE FINANCIAL STATEMENTS AS A WHOLE

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standards 119, *Supplementary Information in Relation to the Financial Statements as a Whole*. This standard addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly state, in all material respects, in relation to the financial statements as a whole. The information covered by this standard is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

STATEMENT ON AUDITING STANDARDS (SAS) No. 120

REQUIRED SUPPLEMENTARY INFORMATION

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standards 120, *Required Supplementary Information*. This standard addresses the auditor's responsibility with respect to information that a designated accounting standard setter requires to accompany an entity's basic financial statements. In the absence of any separate requirements in the particular circumstances of the engagement, the auditors' opinion on the basic financial statements does not cover required supplementary information. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

AMERICAN RECOVERY AND REINVESTMENT ACT – 2009

On February 13, 2009, Congress passed the American Recovery and Reinvestment Act (the Act). The Act of Congress was based largely on proposals made by President Obama and is intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures are nominally worth \$787 billion. The Act includes federal tax relief, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The Act also includes numerous non-economic recovery related items that were either part of longer-term plans or desired by Congress.

As a result of the Act, State and Local governments can qualify for significant financial aid. This financial aid will be subjected to a high level of accountability and transparency. Grant and loan awards will be subject to Single Audit in accordance with OMB Circular A-133. Management will be subjected to significant responsibilities upon receipt of Recovery Act funds. Management should consider the following when administering the use of these funds:

- That control procedures in place over federal expenditures are appropriate, working properly, and designed to prevent unallowable expenditures.
- Whether additional controls and system requirements will be needed to ensure that Recovery Act funds are able to be separately identified and tracked.
- If applicable, whether new controls will need to be established to meet the stringent reporting requirements back to federal agencies.
- If Recovery Act funds will be passed down to subrecipients, that controls are in place to ensure appropriate subrecipient monitoring and also whether any new controls will need to be established related to new subrecipient reporting responsibilities.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City of Palmdale gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended solely for the information and use of the City Council, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 11, 2009